

PERAC AUDIT REPORT



Chelsea



Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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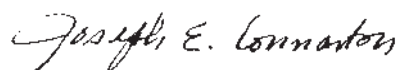
June 27, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Chelsea Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan, Susan Kerr and John Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Retiree Benefit Overpayment:

On the first benefit payment for a retiree, an initial retro adjustment increase was never discontinued during subsequent months. The retiree whose first benefit payment included an additional two weeks of retro pay continued to receive the retro pay for an additional 15 months. This resulted in a benefit overpayment of approximately \$9,000.

Recommendation: A comprehensive process must be designed and implemented that identifies all retirees who have received or been entitled to any adjusted benefit. This information must be compared to benefit records to establish that pensions are being properly calculated and adjusted. The overpaid retiree should be contacted by the Board and a repayment plan must be established. Legal action must be considered in the event recovery is not reasonably anticipated.

Board Response:

The Board agrees with this finding. A review of all retroactive payments has been conducted and no other discrepancies were found. Future retroactive payments will be periodically reviewed in order to prevent any overpayments. Further, the retiree who received the overpayment has entered into an agreement with the System to repay all of the overpayment amount.

2. Cash/Stale Dated Checks:

An inspection of the outstanding checks at 5/31/2013 for the Chelsea Retirement Board bank account revealed that 5 checks with a total value of \$4,854.06 had been issued and remained outstanding for more than six months. One item remained unresolved dating back to June 2011.

Recommendation: Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed on a regular and timely basis. The Executive Director should review the list of outstanding checks and contact the payee to determine the status of the check. Any outstanding check older than six months should be voided and where applicable a new check issued. The Retirement System should consider notifying all retirees of the advantages of direct deposit as an alternative to checks.

Board Response:

The Retirement System is working with the Treasurer of the City of Chelsea to ensure that all outstanding checks are reviewed on a monthly basis. If a check is older than six months, the payee is contacted to determine the status of the check. Checks will be voided or reissued on a case by case basis.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$290,468	\$571,887	\$383,279
PRIT Cash Fund	450,081	50,027	300,085
PRIT Core Fund	89,264,397	75,895,243	74,140,827
Accounts Receivable	4,809,132	4,318,325	4,190,173
Accounts Payable	(166)	(166)	(166)
Total	<u>\$94,813,912</u>	<u>\$80,835,316</u>	<u>\$79,014,198</u>
Fund Balances:			
Annuity Savings Fund	\$31,970,392	\$30,315,638	\$28,920,685
Annuity Reserve Fund	6,385,943	6,291,432	5,956,604
Pension Fund	15,430,755	13,364,914	12,569,923
Military Service Fund	2,404	2,402	2,397
Expense Fund	0	0	0
Pension Reserve Fund	41,024,418	30,860,930	31,564,590
Total	<u>\$94,813,912</u>	<u>\$80,835,316</u>	<u>\$79,014,198</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$26,896,060	\$6,107,950	\$11,859,087	\$2,390	\$0	\$23,224,840	\$68,090,327
Receipts	2,964,324	177,478	8,451,683	7	506,655	8,339,750	20,439,898
Interfund Transfers	(725,232)	725,232	0	0	0	0	0
Disbursements	(214,467)	(1,054,057)	(7,740,848)	0	(506,655)	0	(9,516,027)
Ending Balance (2010)	28,920,685	5,956,604	12,569,923	2,397	0	31,564,590	79,014,198
Receipts	2,985,199	181,127	9,113,841	5	571,662	(703,660)	12,148,174
Interfund Transfers	(1,198,559)	1,198,559	0	0	0	0	0
Disbursements	(391,687)	(1,044,857)	(8,318,849)	0	(571,662)	0	(10,327,055)
Ending Balance (2011)	30,315,638	6,291,433	13,364,914	2,402	0	30,860,930	80,835,317
Receipts	2,964,515	188,986	10,449,113	2	641,837	10,163,488	24,407,941
Interfund Transfers	(1,021,135)	1,021,135	0	0	0	0	0
Disbursements	(288,626)	(1,115,610)	(8,383,272)	0	(641,837)	0	(10,429,345)
Ending Balance (2012)	<u>\$31,970,392</u>	<u>\$6,385,943</u>	<u>\$15,430,755</u>	<u>\$2,404</u>	<u>\$0</u>	<u>\$41,024,418</u>	<u>\$94,813,913</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$2,744,863	\$2,711,993	\$2,672,223
Transfers from Other Systems	138,312	200,032	202,357
Member Make Up Payments and Re-deposits	40,027	0	0
Member Payments from Rollovers	5,396	11,730	12,698
Investment Income Credited to Member Accounts	<u>35,916</u>	<u>61,443</u>	<u>77,046</u>
Sub Total	<u>2,964,515</u>	<u>2,985,199</u>	<u>2,964,324</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>188,986</u>	<u>181,127</u>	<u>177,478</u>
Sub Total	<u>188,986</u>	<u>181,127</u>	<u>177,478</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	29,249	94,085	90,557
Pension Fund Appropriation	347,574	371,867	192,945
Settlement of Workers' Compensation Claims	10,072,290	8,647,889	8,168,182
Recovery of Pension from Reinstatement	0	0	0
Recovery of 91A Overearnings	0	0	0
Sub Total	<u>10,449,113</u>	<u>9,113,841</u>	<u>8,451,683</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>2</u>	<u>5</u>	<u>7</u>
Sub Total	<u>2</u>	<u>5</u>	<u>7</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>641,837</u>	<u>571,662</u>	<u>506,655</u>
Sub Total	<u>641,837</u>	<u>571,662</u>	<u>506,655</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	113,155	61,925	16,042
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	363	233	660
Miscellaneous Income (loss)	(14,716)	17,677	3,642
Excess Investment Income	<u>10,064,686</u>	<u>(783,494)</u>	<u>8,319,406</u>
Sub Total	<u>10,163,488</u>	<u>(703,660)</u>	<u>8,339,750</u>
Total Receipts, Net	<u>\$24,407,941</u>	<u>\$12,148,174</u>	<u>\$20,439,898</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$151,706	\$334,872	\$134,131
Transfers to Other Systems	<u>136,920</u>	<u>56,815</u>	<u>80,337</u>
Sub Total	<u>288,626</u>	<u>391,687</u>	<u>214,467</u>
Annuity Reserve Fund:			
Annuities Paid	1,078,848	1,000,988	925,806
Option B Refunds	<u>36,762</u>	<u>43,869</u>	<u>128,251</u>
Sub Total	<u>1,115,610</u>	<u>1,044,857</u>	<u>1,054,057</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,335,343	4,376,447	3,973,623
Survivorship Payments	478,598	466,281	455,418
Ordinary Disability Payments	126,204	26,920	124,961
Accidental Disability Payments	1,986,155	1,883,929	1,842,837
Accidental Death Payments	1,042,283	1,056,068	1,061,554
Section 101 Benefits	151,858	151,337	163,831
3 (8) (c) Reimbursements to Other Systems	262,830	357,867	118,624
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,383,272</u>	<u>8,318,849</u>	<u>7,740,848</u>
Expense Fund:			
Board Member Stipend	16,500	16,500	16,500
Salaries	117,165	118,328	115,822
Legal Expenses	12,000	12,000	12,000
Travel Expenses	2,407	2,058	2,192
Administrative Expenses	18,800	14,909	15,140
Furniture and Equipment	1,189	0	0
Management Fees	449,230	384,997	320,112
Service Contracts	13,146	11,651	13,461
Fiduciary Insurance	<u>11,400</u>	<u>11,220</u>	<u>11,428</u>
Sub Total	<u>641,837</u>	<u>571,662</u>	<u>506,655</u>
Total Disbursements	<u>\$10,429,345</u>	<u>\$10,327,055</u>	<u>\$9,516,027</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Investment Income Received From:			
Cash	\$75	\$1,646	\$3,612
Pooled or Mutual Funds	2,676,205	2,343,230	1,960,657
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Income	<u>2,676,281</u>	<u>2,344,876</u>	<u>1,964,268</u>
Plus:			
Realized Gains	2,164,425	2,372,182	1,823,963
Unrealized Gains	11,219,774	7,622,423	13,439,999
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>13,384,199</u>	<u>9,994,605</u>	<u>15,263,962</u>
Less:			
Realized Loss	0	(44,351)	(58,777)
Unrealized Loss	(5,129,053)	(12,264,388)	(8,088,862)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(5,129,053)</u>	<u>(12,308,739)</u>	<u>(8,147,638)</u>
Net Investment Income	<u>10,931,427</u>	<u>30,743</u>	<u>9,080,593</u>
Income Required:			
Annuity Savings Fund	35,916	61,443	77,046
Annuity Reserve Fund	188,986	181,127	177,478
Military Service Fund	2	5	7
Expense Fund	<u>641,837</u>	<u>571,662</u>	<u>506,655</u>
Total Income Required	<u>866,741</u>	<u>814,237</u>	<u>761,187</u>
Net Investment Income	<u>10,931,427</u>	<u>30,743</u>	<u>9,080,593</u>
Less: Total Income Required	<u>866,741</u>	<u>814,237</u>	<u>761,187</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$10,064,686</u>	<u>(\$783,494)</u>	<u>\$8,319,406</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$290,468	0.3%
PRIT Cash Fund	450,081	0.5%
PRIT Core Fund	<u>89,264,397</u>	<u>99.2%</u>
Grand Total	<u>\$90,004,946</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Chelsea Retirement System was 13.77%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Chelsea Retirement System averaged 1.52%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chelsea Retirement System was 7.85%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Chelsea Retirement System is 100% invested with the PRIT fund. As a result the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission are effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Chelsea Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Chelsea Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 14, 2010

Membership

Permanent full-time employees of the City of Chelsea will be admitted to membership in the Chelsea Retirement System subject to the following conditions:

The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.

The deduction to be withheld from the salary of each member who became an employee after July 1, 1996 must be 9% plus an additional 2% of compensation in excess of \$30,000.

Employees may request, in writing, permission to make-up payments for their previous employment with the City of Chelsea or any agency which has been accepted as a member of the retirement system. The amount to be repaid for the make-up period only shall be based on the percentage in effect on the original date of the employee's employment.

The make-up payment of those deductions that would have been made had the employee become a member of the Chelsea Retirement System on the original date of employment shall be the percentage in effect on said date, plus interest to the completion of the make-up payment. For the period beginning July 1, 1996 and thereafter, the percentage withheld is 9%. Plus an additional 2% of compensation in excess of \$30,000.

Each employee requesting permission to make up payments for their previous employment shall provide the Retirement Board with a verified list of salaries earned by them, by calendar year, not including overtime or bonuses so that a make-up payment can be calculated.

Any member who has been previously employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that an inquiry can be made as to the disposition of said employee's accumulated deductions. • Each employee seeking to become a member of the Chelsea Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate and, if a veteran, a copy of their military discharge papers, Form DD-214, or other official documentation.

December 1, 2004

In order to be eligible for membership in the Chelsea Contributory Retirement System, permanent part-time or permanent full time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

on a temporary or employee elected basis, such as additional shifts filling in for vacation or sick time, do not count towards the twenty-hour minimum requirement for membership.

February 13, 1998

Military Service Credit Any member seeking military service credit in accordance with the provisions of C. 71 of the Acts of 1996, who is eligible for such credit as of September 19, 1997, must submit an application for such service on or before March 16, 1998.

Members, who become eligible for military service credit after September 19, 1997, shall be notified of their eligibility by the Retirement Board and must submit an application for such credit within 180 days of receipt of notification. The Retirement Board will review each application to determine the member's eligibility, and will notify each eligible applicant in writing of the amount of service which may be purchased, and of the amount of the required payment. The member must then remit the full-required payment in one lump sum to the Retirement Board on or before the forty fifth day following the member's receipt of notification of eligibility, or on or before the date immediately preceding the member's date of retirement, whichever date first occurs.

Permanent full-time employees of the City of Chelsea will be admitted to membership in the Chelsea Retirement System subject to the following conditions:

The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.

The deduction to be withheld from the salary of each member who became an employee after July 1, 1996 must be 9% plus an additional 2% of compensation in excess of \$30,000.

Employees may request, in writing, permission to make-up payments for their previous employment with the City of Chelsea or any agency which has been accepted as a member of the retirement system. The amount to be repaid for the make-up period only shall be based on the percentage in effect on the original date of the employee's employment.

The make-up payment of those deductions that would have been made had the employee become a member of the Chelsea Retirement System on the original date of employment shall be the percentage in effect on said date, plus interest to the completion of the make-up payment. For the period beginning July 1, 1996 and thereafter, the percentage withheld is 9%. Plus an additional 2% of compensation in excess of \$30,000.

Each employee requesting permission to make up payments for their previous employment shall provide the Retirement Board with a verified list of salaries earned by them, by calendar year, not including overtime or bonuses so that a make-up payment can be calculated.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Any member who has been previously employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that an inquiry can be made as to the disposition of said employee's accumulated deductions.

Each employee seeking to become a member of the Chelsea Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate and, if a veteran, a copy of their military discharge papers, Form DD-214, or other official documentation.

December 28, 1984 Membership All new members must file proof of their date of birth with their application for membership.

July 22, 1988

Miscellaneous:

Forms

Approval of disability retirement Form A which provides: "The applicant is required to submit with his/her application for disability retirement benefits all medical records and or reports relating to the applicant's claim for disability benefits."

December 28, 1984

Creditable Service:

Upon granting membership to permanent intermittent employees of the school cafeteria, it was determined that these employees shall be granted credit for that proportion of the number of hours worked as it bears to the number of hours a regularly employed full-time cafeteria employee is required to work during a school year, to obtain a full year of creditable service, 1400 hours.

December 28, 1984

Access to Medical Information:

No medical information contained in an employee file or in a medical panel report will be dispensed to anyone without the written permission of the member concerned, whether retired or not provided that authorized individuals such as representatives of the Division of Public Employee Retirement and the Retirement Board may still be granted access.

December 28, 1984

Disability Waiver:

Any waivers of a physical condition that may have been signed by an employee in order to obtain their positions with the City, must be sent to the Retirement Board at once. Any future such waivers that may be signed must be forwarded to the Retirement Board immediately.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Edward M. Dunn

Appointed Member: Richard A. Incerto Until a successor is appointed

Elected Member: Frederick A. Nowicki Term Expires: 10/12/16

Elected Member: Joseph M. Siewko, Chairman Term Expires: 12/17/14

Appointed Member: Carolyn M. Russo Term Expires: 1/29/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	MACRS Fidelity Bond
Ex-officio Member:)	\$1,000,000 Travelers
Elected Members:)	Insurance
Appointed Members:)	\$2,000,000 Fiduciary
Staff Employees:)	Insurance-RML Insurance Company

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employees Retirement Administration Commission as of January 1, 2011.

The actuarial liability for active members was	\$81,710,753
The actuarial liability for vested terminated members was	1,523,021
The actuarial liability for non-vested terminated members was	617,677
The actuarial liability for retired members was	<u>73,777,439</u>
The total actuarial liability was	\$157,628,890
System assets as of that date were	<u>84,087,066</u>
The unfunded actuarial liability was	<u>\$73,541,824</u>
 The ratio of system's assets to total actuarial liability was	 53.3%
As of that date the total covered employee payroll was	\$29,750,417

The normal cost for employees on that date was 8.7% of payroll

The normal cost for the employer was 6.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2011	\$84,087,066	\$157,628,890	\$73,541,824	53.3%	\$29,750,417	247.2%
1/1/2009	\$65,231,613	\$143,082,153	\$77,850,540	45.6%	\$29,412,382	264.7%
1/1/2007	\$62,031,961	\$130,398,065	\$68,366,104	47.6%	\$26,951,807	253.7%
1/1/2005	\$50,307,347	\$114,625,947	\$64,318,600	43.9%	\$24,442,724	263.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	24	9	14	5	2	0	15	7	14	15
Ordinary Disability	1	0	0	0	0	0	0	0	0	1
Accidental Disability	0	0	1	0	1	0	2	2	3	2
Total Retirements	25	9	15	5	3	0	17	9	17	18
 Total Retirees, Beneficiaries and Survivors	428	442	409	393	395	394	418	405	427	409
 Total Active Members	627	689	690	670	664	695	667	658	657	675
Pension Payments										
Superannuation	\$2,903,563	\$3,143,515	\$3,236,627	\$3,400,378	\$3,619,932	\$3,828,102	\$3,988,070	\$3,973,623	\$4,376,447	\$4,335,343
Survivor/Beneficiary Payments	358,204	395,654	381,536	416,946	441,010	477,061	473,567	455,418	466,281	478,598
Ordinary Disability	168,859	166,499	158,084	143,115	138,656	135,669	128,926	124,961	26,920	126,204
Accidental Disability	1,592,978	1,552,815	1,564,746	1,533,745	1,580,236	1,667,916	1,912,391	1,842,837	1,883,929	1,986,155
Other	1,247,529	1,119,136	1,341,597	1,374,224	1,367,754	1,369,299	1,385,858	1,344,009	1,565,272	1,456,972
Total Payments for Year	<u>\$6,271,133</u>	<u>\$6,377,619</u>	<u>\$6,682,590</u>	<u>\$6,868,408</u>	<u>\$7,147,588</u>	<u>\$7,478,046</u>	<u>\$7,888,812</u>	<u>\$7,740,848</u>	<u>\$8,318,849</u>	<u>\$8,383,272</u>

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